BANK OF CANADA
BANQUE DU CANADA

Business Outlook Survey

Conducted by the Bank's Regional Offices Results of the Autumn 2012 Survey | Vol. 9.3 | 15 October 2012

Overview

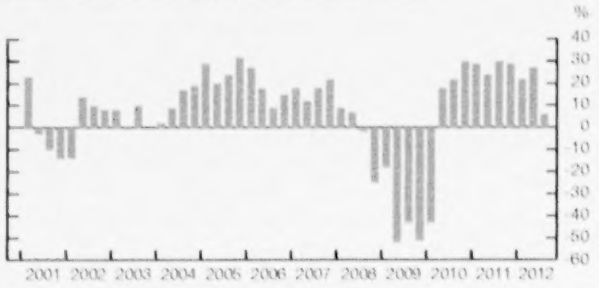
- The results of the autumn survey suggest that, in an environment of slow global economic growth and uncertainty about demand, firms have tempered their expectations for business activity. Firms are generally more circumspect about near-term investment decisions and are focusing on minimizing costs.
- Firms, on balance, expect little change in the pace of sales growth over the next 12 months. The balance of opinion on investment remains positive but has declined, as many firms report shifting their focus toward more intensive use of existing capital over the near term. Plans to increase employment are also less widespread.
- Capacity pressures and labour shortages are little changed. While input price inflation is expected to remain about the same, more firms plan to increase output prices at a greater rate, often in an effort to improve profit margins. Inflation expectations eased modestly and remain concentrated within the Bank's 1 to 3 per cent inflation-control range.
- On balance, firms reported that credit conditions eased over the past three months.

Business Activity

Firms reported a less robust sales performance over the past 12 months than in recent surveys (**Chart 1**), and the zero balance of opinion on future sales growth indicates that they expect sales to increase at the same rate over the next 12 months (**Chart 2**). Amid further indications that the global economic outlook will remain

Chart 1: On balance, firms report little change in sales growth over the past 12 months...

Balance of opinion*
Over the past 12 months, did your firm's sales volume increase at a greater, lesser or the same rate as over the previous 12 months?

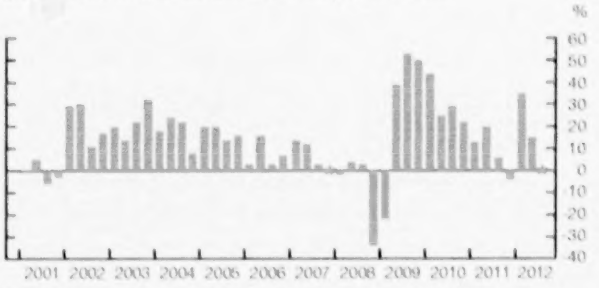


Greater: 40% Same: 27% Lesser: 34%

* Percentage of firms reporting faster growth minus the percentage reporting slower growth

Chart 2: ...and they expect sales to increase at the same pace over the next 12 months

Balance of opinion*
Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser or the same rate as over the past 12 months?



Greater: 35% Same: 31% Lesser: 35%

* Percentage of firms expecting faster growth minus the percentage expecting slower growth
* Indicates a balance of opinion of zero

The *Business Outlook Survey* summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity. Additional information on the survey and its content is available on the Bank of Canada's website. The autumn 2012 survey was conducted from 27 August to 20 September 2012. The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding.

The opinions expressed are those of the respondents and do not necessarily reflect the views or policies of the Bank of Canada. The method of sample selection ensures a good cross-section of opinion. Nevertheless, the statistical reliability of the survey is limited, given the small sample size.

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subdued, the moderation in future sales expectations was concentrated among firms most exposed to global demand, particularly those in the manufacturing sector. Commodity demand and steady, albeit modest, domestic momentum are still among the main factors generally providing positive support to firms' sales outlooks.

After remaining elevated over recent surveys, the balance of opinion on investment has fallen and is now only modestly positive, pointing less strongly to an increase in investment over the next 12 months than in the summer survey (**Chart 3**). Many (mostly large) firms reported having recently completed significant projects and noted that, in the current environment, the emphasis of their near-term investments would shift toward more intensive use of existing capital, through projects related to improving logistics and supply-chain processes.

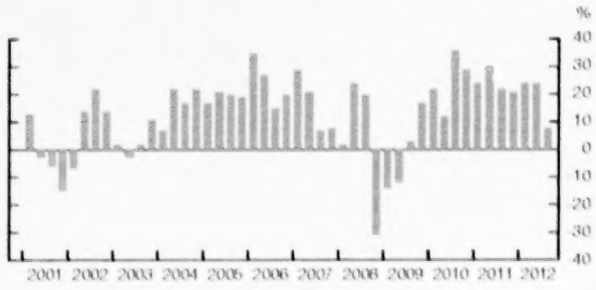
Firms continue to plan to increase employment over the next 12 months; however, the balance of opinion has declined considerably from its level in the summer survey (**Chart 4**). Intentions to increase employment softened in all regions. A number of firms cited productivity gains from recent capital projects, efforts to reduce costs or demand conditions as factors influencing their hiring decisions.

Pressures on Production Capacity

There was little change in the percentage of firms reporting difficulty meeting an unanticipated increase in demand (**Chart 5**). Almost all of these firms reported that they would have "some" rather than "significant" difficulty. As in the summer survey, a number of firms reporting capacity pressures indicated that there was still spare capacity at the industry level.

Chart 3: Fewer firms are planning to increase investment...

Balance of opinion*
Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower or the same as over the past 12 months?

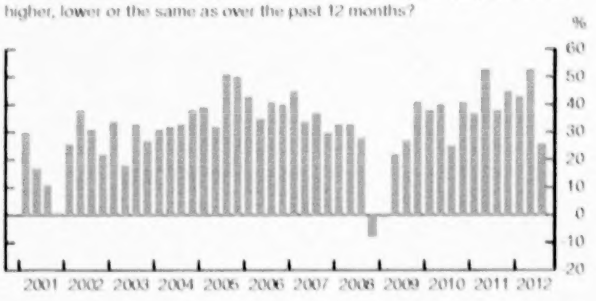


Higher: 37% Same: 34% Lower: 29% No response: 1%

* Percentage of firms expecting higher investment minus the percentage expecting lower investment

Chart 4: ...and intentions to raise employment are less widespread

Balance of opinion*
Over the next 12 months, is your firm's level of employment expected to be higher, lower or the same as over the past 12 months?

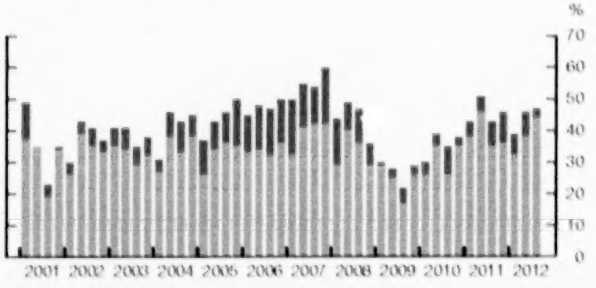


Higher: 44% Same: 39% Lower: 18%

* Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

Chart 5: Capacity pressures are essentially unchanged

How would you rate the current ability of your firm to meet an unexpected increase in demand?

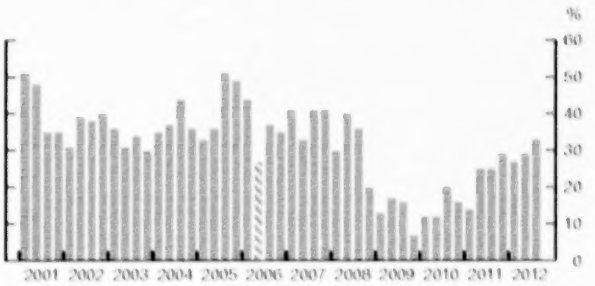


Significant difficulty: 3% Some difficulty: 44%

The percentage of firms reporting that labour shortages are currently restricting their ability to meet demand edged up marginally in the autumn survey (**Chart 6**). Slightly fewer reports of labour shortages in Western Canada were more than offset by increased reports from firms in Central and Eastern Canada. Firms citing labour shortages tended to report difficulties in finding workers with specific skills.

Chart 6: Reports of labour shortages edged up marginally

Does your firm face any shortages of labour that restrict your ability to meet demand?



Yes: 33%

The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.

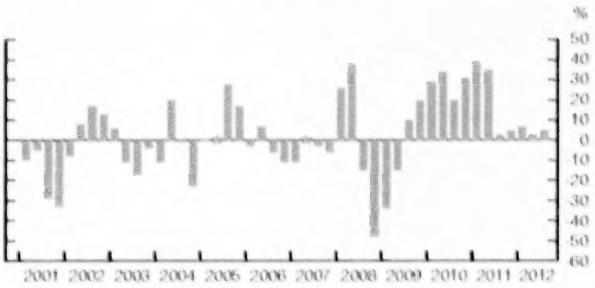
Prices and Inflation

The balance of opinion on input prices remains close to zero (**Chart 7**), indicating that firms expect input prices to rise at about the same pace over the next 12 months as they did during the past 12 months.

Chart 7: Firms expect input prices to increase at about the same rate over the next 12 months...

Balance of opinion*

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser or the same rate as over the past 12 months?



Greater: 28% Same: 50% Lesser: 23%

* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

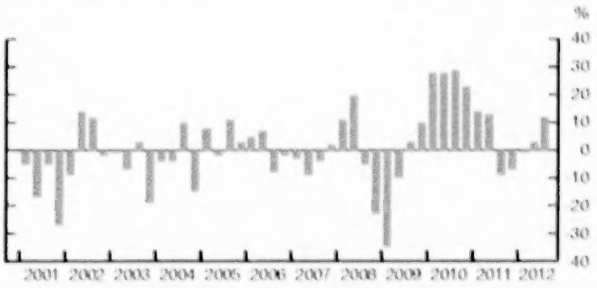
≈ Indicates a balance of opinion of zero

The balance of opinion on output prices is positive (**Chart 8**). A number of the firms expecting output prices to increase at a greater rate over the next 12 months indicated a desire to improve profit margins.

Chart 8: ...and output prices to increase at a greater rate, as some firms attempt to improve profit margins

Balance of opinion*

Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser or the same rate as over the past 12 months?



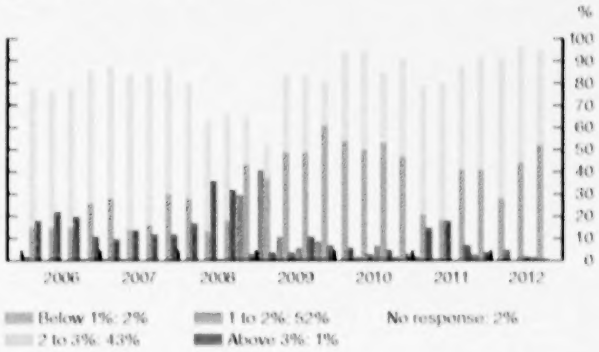
Greater: 34% Same: 45% Lesser: 22%

* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

Inflation expectations eased for a second consecutive quarter, with a slight increase in the percentage of firms expecting inflation to be between 1 and 2 per cent. Almost all firms surveyed anticipate that CPI inflation will remain within the Bank's 1 to 3 per cent inflation-control range over the next two years (**Chart 9**).

Chart 9: Inflation expectations are concentrated within the Bank's inflation-control range

Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?



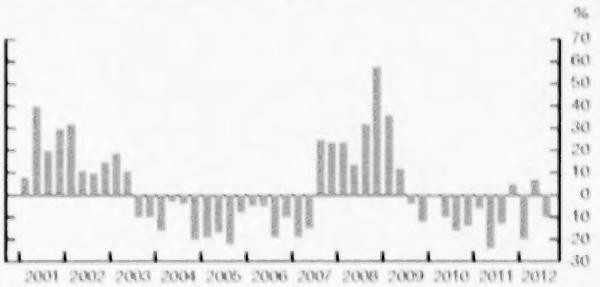
Credit Conditions

The balance of opinion on credit conditions is modestly negative, indicating that credit conditions eased over the past three months (**Chart 10**). Although the majority of firms reported no change in credit conditions over this period, those that did report an easing were primarily large and medium-sized firms.

Chart 10: On balance, firms reported that credit conditions eased over the past three months

Balance of opinion*

Over the past three months, how have the terms and conditions for obtaining financing changed (compared with the previous three months)?



* Percentage of firms reporting tightened minus the percentage reporting eased. For this question, the balance of opinion excludes firms that responded "not applicable."

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